

ANNUAL REPORT

1967

RETURN TO
ERNST & ERNST
NATIONAL LIBRARY
CLEVELAND

CLEVELAND PUBLIC LIBRARY
BUSINESS, INT. SEC.
CORPORATION FILE

Northern Ohio and Predecessor **Telephone Company**

70th
year



Northern Ohio Telephone Company

Directors

ALLAN G. AIGLER*

Aigler and Aigler, Attorneys
Bellevue, Ohio

JOHN A. AIGLER

General Commercial Superintendent of
the Company, Bellevue, Ohio

THOMAS A. BOYD

Retired, Former Vice President-Finance,
General Telephone & Electronics, Inc.,
Bronxville, New York

CHARLES H. CAMPBELL

The Equitable Life Assurance Society,
Ashland, Ohio

ROBERT T. CAMPBELL

The North Electric Manufacturing Co.
Galion, Ohio

FRANK C. HENRY*

Partner, Bosworth, Sessions, Herrstrom
and Knowles, Patent Attorneys
Cleveland, Ohio

WILLIAM C. HENRY*

President
Norwalk, Ohio

HERMANN H. THORNTON

Educator, Oberlin, Ohio

FRED W. UHLMAN, JR.

McDonald & Co.
Bowling Green, Ohio

JOHN E. WISE*

President, The Citizens National Bank
of Norwalk, Norwalk, Ohio

*Member Executive Committee

Officers

ALLAN G. AIGLER

Chairman of the Board

WILLIAM C. HENRY

President

ALLEN W. HUGHES

Operating Vice President

JOHN E. WISE

Vice President

WILLIAM H. TODD

Secretary and Treasurer

JOHN A. AIGLER

Assistant Secretary and Assistant Treasurer

Transfer Agent and Registrar

Common Stock—Central National Bank
of Cleveland, Cleveland, Ohio

General Counsel

Aigler and Aigler, Bellevue, Ohio

Special Counsel

Squire, Sanders and Dempsey
Cleveland, Ohio
Power, Griffith, Jones and Bell,
Columbus, Ohio

Independent Auditors

Ernst & Ernst, Cleveland, Ohio

**Comparative highlights
of the year's operations**

	1967	1966	Percent Increase Over 1966
Telephones in Service*	165,232	157,908	4.6%
Direct Distance Dialing Available to Total Telephones	97.1%	85.4%	13.7%
Toll Calls Completed	15,947,100	14,790,829	7.8%
Gross Telephone Plant*	\$69,119,571	\$63,438,104	9.0%
Operating Revenues	\$20,130,046	\$18,407,950	9.4%
Operating Expenses	\$11,355,935	\$10,247,140	10.8%
Federal Income Taxes	\$ 3,672,069	\$ 3,539,724	3.7%
Net Income Available to Common Stock	\$ 3,802,624	\$ 3,506,538	8.4%
Earnings Per Share—Common Stock	\$1.34	\$1.25	7.2%
Dividends Paid Per Share—Common Stock	\$.647(1)	\$.635(2)	1.9%
Book Value Per Share—Common Stock*	\$7.96	\$7.36	8.2%
Number of Employees*	1,086	1,013	7.2%
Number of Common Shareholders*	2,514	2,362	6.4%

* At end of year

(1) Equated for 1% stock dividend March 27, 1967

(2) Equated for 1 for 3 stock distribution in 1966



A Message from the President

TO OUR STOCKHOLDERS

I am pleased to report that in 1967 this Company's revenues, net income, number of telephones in service and total capital investment rose to new highs. The operating details for the year are set forth in the statistical portion which is a part of this Annual Report.

This past year marked the seventieth anniversary of Northern Ohio Telephone Company and its predecessor Company, The Bellevue Home Telephone Company. The original Company was capitalized for \$10,000, and began business in 1897 with 67 subscribers.

In April, 1927, our predecessor Company and seven other Telephone Companies, under common ownership, were consolidated, and Northern Ohio Telephone Company, with a property valuation of \$3,208,100 and with 24,000 telephones installed, began operations.

Through diligent management and subsequent acquisitions the Company has grown, under the American System of free enterprise, to become the eighth largest Independent Telephone Company in the United States. As of December 31, 1967, our total capitalization was \$45,129,834 and our 68 exchanges were serving 165,232 telephones in 24 counties of northern Ohio.

The Company, throughout seventy years of progress, has maintained its role as one of the leaders in the Independent Telephone Industry. On May 17, 1964 our last manual exchange was converted to dial, making Northern Ohio Telephone's exchange service 100% dial operated. The complete changing of all telephone numbers in the Company's service areas to All Number Calling (ANC) was completed in 1965.

This past year the installation of subscriber Direct Distance Dialing in our Genoa District completed our program of providing DDD through all of the Company's toll centers. In 1967 we added the latest and most modern type of toll service—subscriber Expanded Direct Distance Dialing of Person-to-Person, Station-to-Station, Credit Card, Collect, Pay Station and Third Number Billing of calls—at two of our eight toll centers. Our Company's Galion installation, using electronic memory storage of dialed information, was the first toll center in Ohio offering this type of system for subscriber long distance calling.

For growth and improvement of existing service in 1967 our gross construction amounted to \$6,873,167.29, and at year end our total Net Telephone Plant Investment increased to \$69,119,570.58.

In line with our program of upgrading party line service, individual and two party residential service within exchange base rate areas and five party line service continued to increase, and a program of zoning rural areas for graded service in lieu of mileage charges was started.

Applications for Extended Area Service (EAS) for three more of our exchanges, Brunswick, Cheshire Center and Rathbone, were approved by the Public Utilities Commission of Ohio. Since the end of the year applications for additional EAS service for our Burbank and Creston exchanges have been approved. With the shifting of population away from metropolitan areas and the continuing consolidation of school districts, the demand for EAS between communities and exchanges will accelerate over the next several years.

The Annual Meeting of Shareholders was held at the Company's General Offices in Bellevue on May 16, 1967. A total of 92.1% of the total outstanding shares of common stock were represented in person or by proxy. The Shareholders re-elected all Directors of the Company, and at the Organization Meeting of the Board, the same officers were also re-elected for another year.

On August 15, 1967 an offer was received from General Telephone & Electronics Corporation for a merger through the exchange of one share of General Telephone common stock for each share of Northern Ohio common stock, with Northern Ohio Telephone Company becoming a wholly-owned subsidiary of GT&E. The Board of Directors approved the merger plan and recommended it to a Special Stockholders' Meeting held on November 30, 1967. 93.02 per cent of the common stock was represented, and 92.95 per cent of the shares voted in favor of the merger.

The Public Utilities Commission of Ohio issued its order approving the merger on October 24, 1967. On November 29 the Internal Revenue Service ruled that the exchange of common stock of Northern Ohio Telephone Company for GT&E, on a share-for-share basis, would be a tax-free transaction.

Subsequently the International Telephone & Telegraph Corporation filed "informal objections" with the Federal Communications Commission to the transfer of control of this Company to GT&E. Pleadings were also filed by I.T.&T. with the Public Utilities Commission of Ohio requesting that Commission to vacate its order of October 24th in which it found that the proposed transaction was in the public interest. As of March 8, 1968 neither of the two regulatory commissions had rendered a decision on the protests of the I.T.&T. While counsel for both this Company and the GT&E Corporation are of the opinion that the several filings by I.T.&T. are not well founded, it is not possible in this report to predict when or what action will be taken by the respective Commissions. As soon as definite information is available, you will be advised.

I regret to record that Director Herbert A. Erf suffered a fatal heart attack on December 27, 1967. He had been a valued member of our Board for 27 years and his wise counsel will be missed.

The record of the Communications Industry has been one of constant improvement and the provision of new services to meet future requirements of our subscribers. This presents an ever changing challenge to which your Management is dedicated.

The Officers and Directors of this Company are appreciative of the confidence expressed by our stockholders and the public we are privileged to serve.

Respectfully submitted,

President

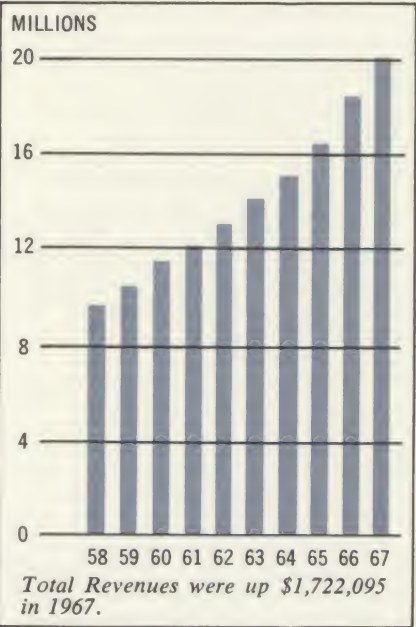
Bellevue, Ohio
March 8, 1968

Revenues

Total revenues for 1967 were \$20,130,045.44, an increase of \$1,722,095.20, or 9.4 per cent.

Revenues from subscribers for local exchange service were up \$519,911.51, due to the increase in number of stations in service, the upgrading of party lines, and the sale of Automatic Private Branch Exchanges, additional lines and other special equipment and services to business users.

Toll service revenue was up 6.8 per cent, or \$540,586.39. The principal factors contributing to this progressive growth were the increased use of toll service by our subscribers, the expansion of Direct Distance Dialing facilities, and the increased number of telephones in service.



Private line service income was up 57.6 per cent, or \$552,839.70. Approximately \$380,000 of this large increase is non-recurring and was due to bringing up to date deferred settlement for teletype services for two years and an adjustment in the payments received for rental of equipment furnished the F.A.A. at its Oberlin Air Route Traffic Control Center.

Directory advertising and sales increased \$115,438.41, Pay Station revenue was up \$18,164.39, and Rental income also showed an increase over the previous year.

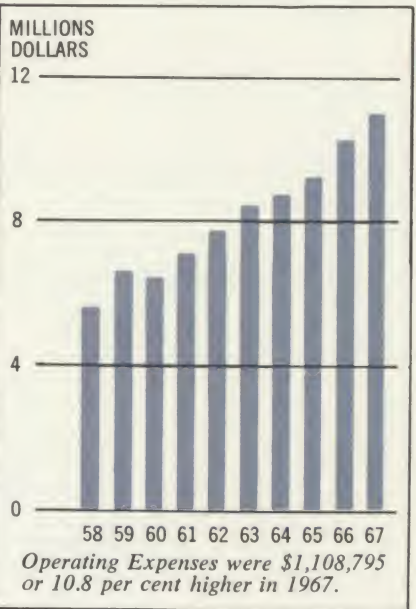
The accrual for uncollectibles was increased by \$20,500 to \$77,500. Other income totaled \$84,202.00 in 1967, which was a decrease of \$30,652.00 due to liquidation of certificates of deposit required for capital additions.

Operating revenues were \$124.59 per telephone in 1967 compared to \$119.82 in the previous year.

Expenses

Total operating expenses for 1967 were \$6,506,230.47. This is an increase of \$693,217.49 or 11.9 per cent over the previous year. Maintenance Expense was \$2,498,125.12, up \$280,603.03; Traffic Expense was \$2,080,151.52, up \$105,686.80; Commercial Expense was \$926,538.53; up \$95,323.54; General Office Expense was \$608,041, up \$88,404; and Other Operating Expenses were \$393,374.30, an increase of \$123,200.12.

The increased Maintenance Expenses reflect a general increase in wage rates paid employees; the additional personnel required for maintenance of central office equipment, and for station installation and repair. The increase in both Traffic and Commercial Expenses was due to increased wage rates and additional personnel. General Office Expense increased due to the initial cost of changing our billing and accounting activities to an IBM #360 Computer. An increase in Ohio Workmans Compensation rates, the payment of an additional \$6,588.00 in premiums for employees' Blue Cross and Blue Shield insurance, and a revaluation of the reserve for the Company's employees' Pension Benefit Plan accounted for the major part of the increase in Other Operating Expenses.



More Telephones and Toll Calls

The number of telephones gained from internal growth in 1967 was 7,324, or an increase over the previous year of just over four and one-half per cent. The less than normal station growth reflected the decrease in housing construction and the general slow down of the economy in 1967. An increasing number of our customers were upgraded to either individual or two party service, and the number of extension telephones for business and residential service increased substantially. During 1967 the percentage of residential extensions to individual line residential service reached a new high of 22.1 per cent. Total Company telephones in service at the year end were 165,232.

The number of long distance messages completed in 1967 reached a new peak of 15,947,100, an increase of 1,150,273 or 7.8 per cent in completed calls over the year 1966. Of this total, 8,697,457 or 54.5 per cent were customer direct dialed toll calls.

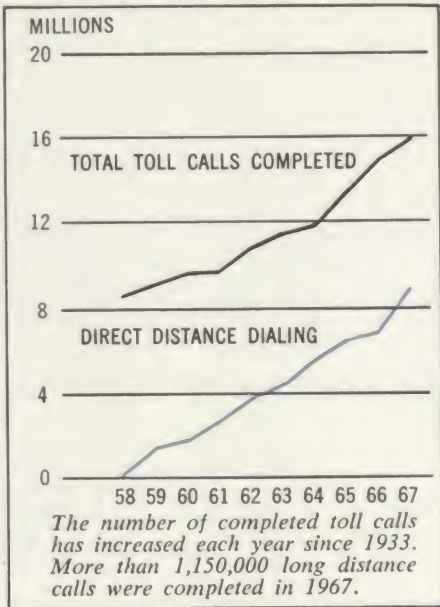
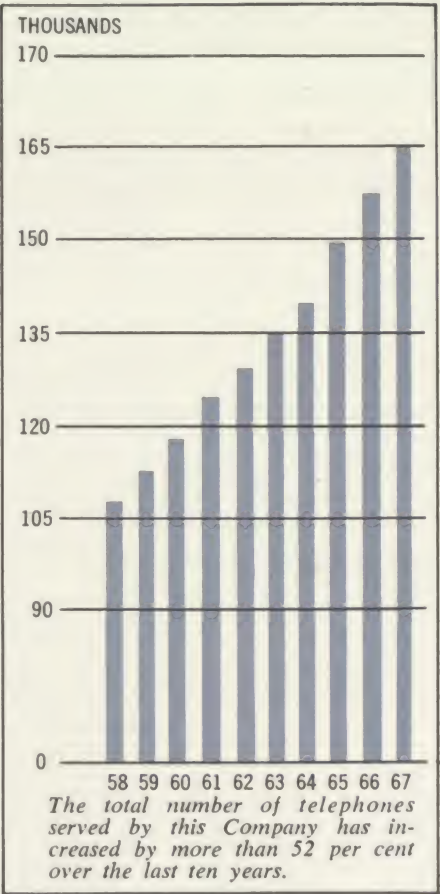
On March 5, 1967 Expanded Direct Distance Toll Dialing was made available to 8,300 customers at Galion and Crestline. This new toll service permits customers to dial directly not only station-to-station calls, but person-to-person, credit card, and collect long distance calls. An additional 10,500 customers of our Bowling Green toll center and its tributary exchanges were provided this service improvement on August 27, 1967. Central Office Equipment to provide EDDD toll service to another 17,750 subscribers served by our Norwalk toll center will be ready for use late in 1968.

Employees and Wages

As the Company continued to grow during 1967, so did its working force. By the end of the year Northern Ohio Telephone Company employed 1,086 persons, 711 women and 375 men. This was an increase of 73 employees during the year. Total wages paid our own employees in 1967 amounted to \$4,909,635.03. In addition we employed under contract an additional 46 men for maintenance and construction in various exchange districts at year end.

The reopening, for wages only, of a three-year Labor Agreement, which was signed in 1965, was satisfactorily concluded, and resulted in an increase in total hourly costs effective November 27th, 1967 in the annual amount of \$192,793.00. The annual increase in wages this year was substantially more than the Industry pattern due to the increase February 1, 1968 in the starting wage rate for Traffic Department employees of from \$1.40 to \$1.60 per hour, and its related effect on all other wage and salary rates of the Company.

Employees of a Telephone Company are largely responsible for the quality of the service provided its subscribers. Northern Ohio Telephone Company has a loyal, conscientious and devoted group of employees, and the Management sincerely expresses to them its appreciation.



Taxes and Depreciation

The allowance for depreciation of telephone property and plant, set aside from operating revenue in 1967, was \$2,767,541.00.

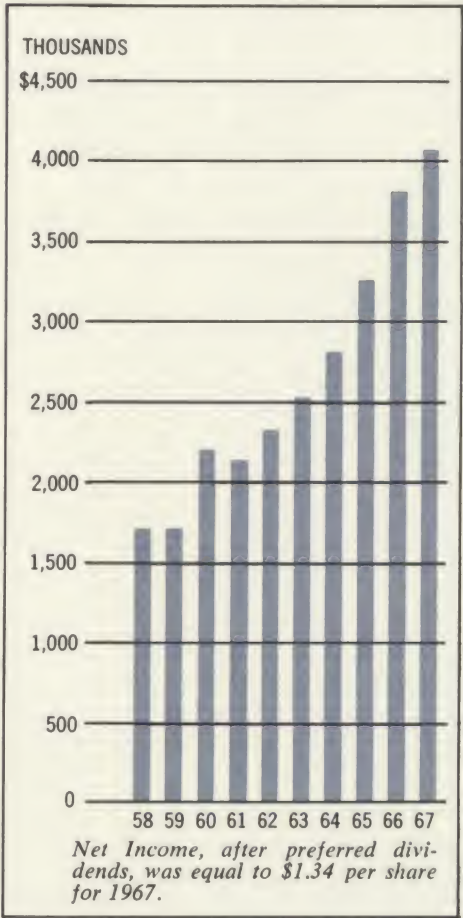
The increase of \$226,684.00 over 1966 reflects the provision of depreciation on the net additional property and plant of five million six hundred thousand dollars added over the past year. The composite depreciation rate for Federal Income Tax purposes was 4.35 per cent.

Public Utilities are good corporate citizens, and as such they contribute substantially to our Government's income. Our total operating taxes for 1967 were \$5,754,232.00. This was an increase of \$321,369.00 or 5.9 per cent over 1966. Federal Income Taxes were \$3,672,069.00, and accounted for the major part of the total increase. County property taxes accrued were \$1,365,000.00, which reflects about a 9 per cent increase of school district millage, increased valuations, and other local Government tax requirements. Other Federal, State and local taxes amounted to \$717,163.00.

During 1967 the deduction from each employee for Federal Social Security was 4.4 per cent of their first \$6,600 of annual earnings. The Company's matching contribution for 1967 was \$206,209.00.

Operating taxes for the year amounted to \$35.61 for each telephone in service, and were equivalent to approximately twenty-nine cents of each dollar of the Company's revenue and more than \$2 per share of common stock.

During the year the Company collected \$1,755,964.85 in Federal Excise Tax from its subscribers which amounted to \$10.87 per subscriber. This tax of 10 per cent is billed as a separate item to our subscribers, and collected by the Company for remittance to the Federal Government without any compensation to our Company for its role as a tax collector.



Net Income

Net Income for 1967 available for interest, dividends, other fixed charges, and retained earnings amounted to \$5,186,244, an increase of \$450,304 over 1966. Interest on outstanding bonds and other fixed charges amounted to \$1,015,763, leaving net income of \$4,170,481, available for preferred and common stock dividends and retained earnings. During the year the regular quarterly dividends on the three issues of preferred stock were paid in the amount of \$367,573.67, with the fourth quarter's preferred dividends paid with the calling of the stock. This is the sixty-ninth year in which this Company and its predecessor, The Local Telephone Company, have paid its preferred dividends.

On March 15th, 1967, The Public Utilities Commission of Ohio approved the Company's application to pay a one per cent common stock dividend to common stock of record March 27th, 1967. There was accordingly issued an additional 27,018 full shares of common stock, and \$46,450.00 was charged to surplus in lieu of fractional shares. Dividends paid on common stock during the year 1967, based on 2,834,257 shares outstanding at the year end, and equated for the stock dividend, amounted to .647 cents per share.

Earnings per share on common stock was \$1.34 for 1967 as compared with \$1.25 in 1966.



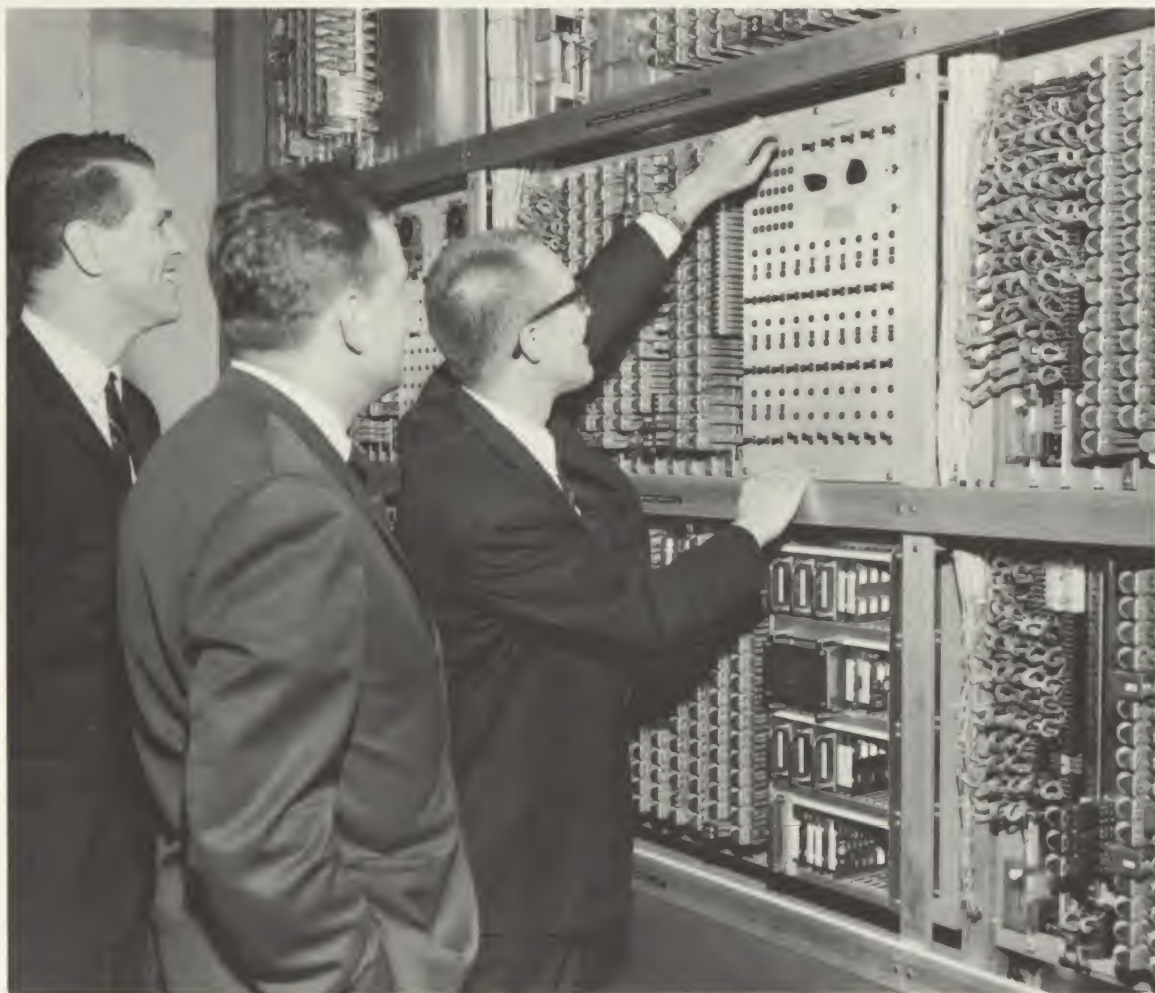
Gross Additions to Plant

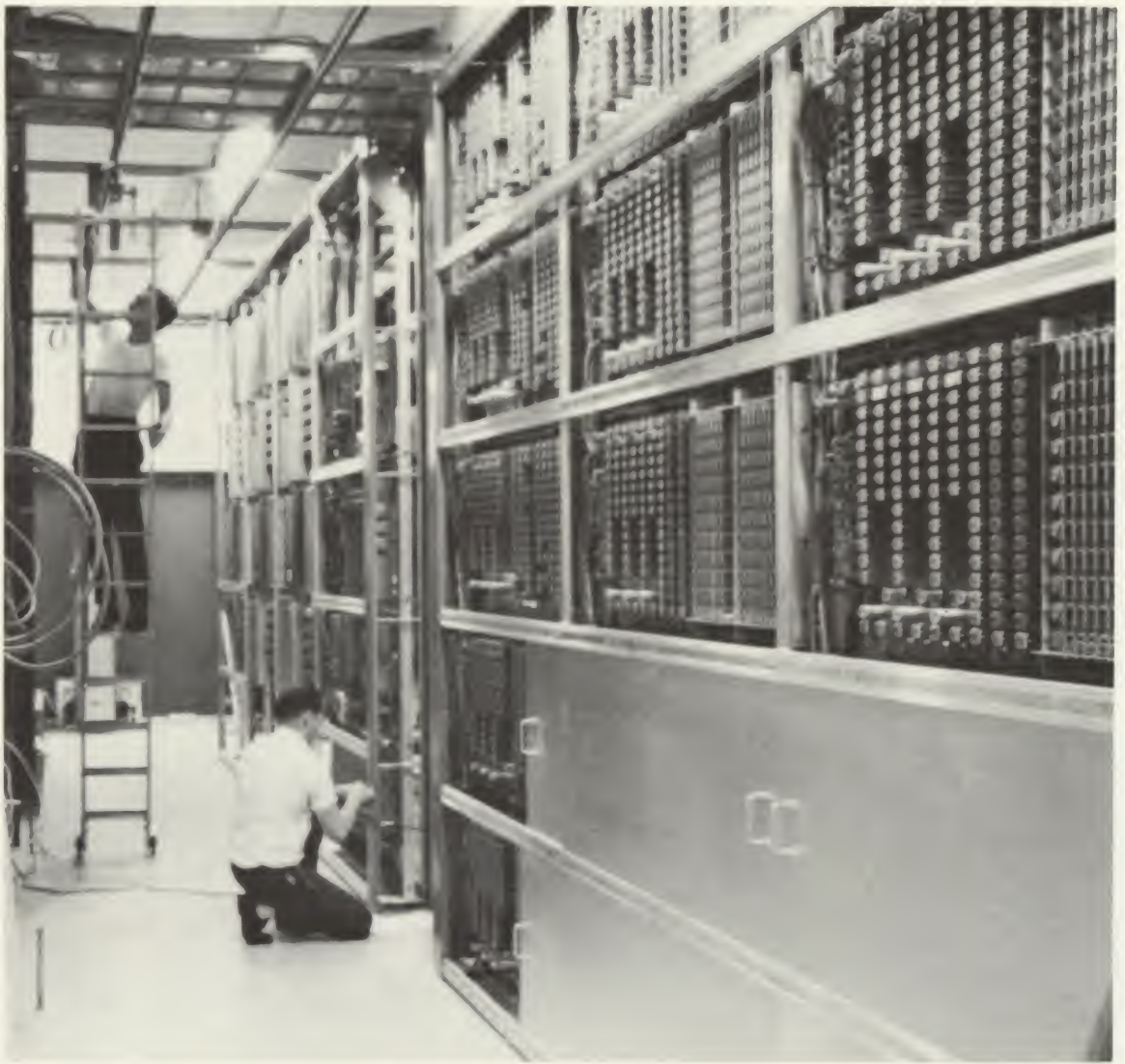
Gross Additions to Telephone Plant for the year 1967 were \$6,873,167.29. Plant retired amounted to \$1,716,878.22, making net additions for the year of \$5,156,289.07.

The principal net addition to component classifications of Plant were \$1,903,143.56 for Central Office Equipment; \$876,007.61 for Subscriber Station Equipment and Connections; \$1,691,276.68 for Underground and Aerial Cable; and \$233,196.02 for Land and New Buildings or Additions to Present Buildings. On December 31, 1967 the total book value of Telephone Plant, including \$1,474,808.71 in Telephone Plant under Construction, was \$69,119,570.58, which represents \$427.80 for each telephone in service.

The March 5, 1967 installation of Premium Toll Ticketing (EDDD) of long distance calls placed in service at the Company's Crestline and Galion Exchanges was the first installation employing an electronic "memory" system of dialed information for Expanded Direct Distance Dialing to be dedicated to service in the Independent Telephone Industry.

First Electronic memory system for dialed information of EDDD in Independent Telephone Industry—placed in service at Galion.





Installation of new cross bar exchange at Bellevue.

On August 27, Subscriber Direct Distance Dialing of Person-to-Person, Station-to-Station, Collect, Credit Card, Pay Station, and Third Number Billing of calls was also established at our Bowling Green and Tributary Exchanges. This marked the second installation of EDDD toll service by this Company, and the eighth such installation in Ohio.

A complete new Central Office Exchange was placed in service at Bellevue on September 17, 1967. This new Cross-Bar Equipment represents an investment of \$350,000. It occupies a portion of the Company's new addition to its General Office Building.

On November 5, the operations of the Company's Genoa Toll Center were combined, for greater efficiency, with our Port Clinton Toll Center. Coincident with this change, Direct Distance Dialing of long distance calls was established for subscribers in the Curtice-Oregon, Elmore and Genoa Exchanges of this District. At year end subscriber Direct Distance Dialing of long distance calls was provided by all eight of the Company's toll centers.

Financing

Additional financing was required in 1967 to continue our aggressive program of plant additions and improvements in order to adequately meet increasing service requirements. Thirty-year First Mortgage Bonds in the principal amount of six million dollars, bearing interest at the rate of six and one-fourth per cent, and dated September 1, 1967, were sold at private sale to institutional investors at par. Payment had been received for \$4,250,000 principal amount of these Bonds, and by agreement with several of the purchasers, payment for the remaining \$1,750,000 principal amount of Bonds was received March 1, 1968. The Company's total bonded indebtedness at the year end was \$23,150,000, which is slightly more than 33½ per cent of the book value of the Company's total plant.

As a condition precedent to the merger of Northern Ohio Telephone Company and General Telephone & Electronics Corporation, the Board of Directors of this Company on November 30, 1967, authorized the Company to borrow, on short term, nine million dollars to be used for redemption of all preferred stock. The four issues of the Company's preferred stock were called for redemption on or after December 1, 1967, at their par value, plus the call premium and payment of the dividend for the fourth quarter of 1967.

Financial Statements for the year 1967 and similar comparable information for a ten year period follows. Should you have any questions concerning the Company, we will be happy to hear from you.

Auditors' Report

Board of Directors
Northern Ohio Telephone Company
Bellevue, Ohio

We have examined the balance sheet of Northern Ohio Telephone Company as of December 31, 1967, and the related statements of income, other capital, and retained income for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the financial statements for the preceding year.

In our opinion, the accompanying balance sheet and statements of income, other capital, and retained income present fairly the financial position of Northern Ohio Telephone Company at December 31, 1967, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Ernst

Cleveland, Ohio
February 23, 1968

BALANCE SHEETS

Assets

	DECEMBER 31	
	1967	1966
PLANT AND OTHER INVESTMENT		
Telephone plant in service—Notes B and C	\$67,644,762	\$62,488,473
Telephone plant under construction	1,474,809	949,631
	<u>\$69,119,571</u>	<u>\$63,438,104</u>
Less reserve for depreciation	14,925,457	13,477,757
	<u>\$54,194,114</u>	<u>\$49,960,347</u>
Investment in COMSAT	150,000	150,000
	<u>\$54,344,114</u>	<u>\$50,110,347</u>
CURRENT ASSETS		
Cash	\$ 2,694,892	\$ 915,603
Special cash deposits and working funds	101,294	78,733
Certificates of deposit	651,490	259,250
Notes and land contracts receivable	30,516	83,909
Accounts receivable (including estimated unbilled—1967—\$512,598; 1966—\$451,678)		
less reserve for uncollectible accounts	2,094,352	2,082,376
Materials and supplies	870,405	989,569
	<u>\$6,442,949</u>	<u>\$ 4,409,440</u>
DEFERRED CHARGES		
Prepaid insurance and other expenses	\$ 36,194	\$ 18,460
Discount on funded debt	280,081	240,830
	<u>\$ 316,275</u>	<u>\$ 259,290</u>
	<u>\$61,103,338</u>	<u>\$54,779,077</u>

See notes to financial statements.

Liabilities and Shareholders' Equity

	DECEMBER 31	
	1967	1966
SHAREHOLDERS' EQUITY—Note A		
Capital stock:		
Cumulative Preferred Stock—\$100 par value:		
Authorized 100,000 shares	\$ —o—	\$ 7,720,800
Common Stock—\$3.33⅓ par value:		
Authorized—6,000,000 shares		
Issued and outstanding—1967—2,834,257		
shares; 1966—2,807,239 shares	9,447,523	9,357,464
Installments paid on capital stock	—o—	4,214
	\$ 9,447,523	\$17,082,478
Other capital	2,706,007	1,605,789
Retained income—Note C	9,826,304	9,691,573
	\$21,979,834	\$28,379,840
FUNDED DEBT—Note C	23,150,000	18,900,000
CURRENT AND ACCRUED LIABILITIES		
Note payable to bank—Note A	\$ 9,000,000	\$ —o—
Accounts payable	1,485,905	1,423,417
Subscribers' advance billings and payments	366,329	315,676
Taxes	3,005,958	3,851,550
Unmatured interest and dividends	1,387,155	1,267,432
	\$15,245,347	\$ 6,858,075
DEFERRED INVESTMENT TAX CREDIT—Note D	728,157	641,162
	\$61,103,338	\$54,779,077

See notes to financial statements.

Statements of Income

	YEAR ENDED DECEMBER 31	
	1967	1966
OPERATING REVENUES		
Local service	\$ 9,414,116	\$ 8,876,040
Toll service	8,528,011	7,987,424
Local private line service	1,513,347	960,508
Directory advertising and sales	730,777	615,338
Miscellaneous	21,295	25,640
Less provision for uncollectible accounts	77,500*	57,000*
TOTAL OPERATING REVENUES	\$20,130,046	\$18,407,950
OPERATING EXPENSES		
Current maintenance	\$ 2,498,125	\$ 2,217,522
Depreciation	2,767,541	2,540,857
Traffic	2,080,152	1,974,465
Commercial	926,539	831,215
General office	608,041	519,637
Other—Note E	393,374	270,305
Taxes other than federal income taxes	2,082,163	1,893,139
TOTAL OPERATING EXPENSES	\$11,355,935	\$10,247,140
	\$ 8,774,111	\$ 8,160,810
OTHER INCOME	84,202	114,854
	\$ 8,858,313	\$ 8,275,664
OTHER DEDUCTIONS		
Interest expense	\$ 1,005,197	\$ 853,021
Amortization of discount on funded debt	10,566	10,021
	1,015,763	863,042
INCOME BEFORE FEDERAL INCOME TAXES \$	7,842,550	\$ 7,412,622
FEDERAL INCOME TAXES—Note D		
Payable for the year	\$ 3,585,074	\$ 3,409,974
Investment tax credit deferred—net	86,995	129,750
	\$ 3,672,069	\$ 3,539,724
NET INCOME	\$ 4,170,481	\$ 3,872,898
Net income per share of Common Stock	\$ 1.34	\$ 1.25

* Indicates red figure. See notes to financial statements.

Notes to Financial Statements

NORTHERN OHIO TELEPHONE COMPANY

December 31, 1967

NOTE A—PENDING MERGER

A Plan of Reorganization and Agreement of Merger whereby the Company would become a wholly-owned subsidiary of General Telephone & Electronics Corporation was approved during 1967 by the shareholders. Approval of the Public Utilities Commission of Ohio has been obtained (but is being protested by another Company) and approval of the Federal Communications Commission has been requested. Completion of the merger would result in an exchange of common stock of the two companies on a share for share basis.

On December 1, 1967, as a prerequisite to the merger, the Company called its preferred stock for redemption and deposited the funds necessary to effect the redemption with a bank. This transaction was financed through the note payable to a bank. Since the redemption price included dividends for the fourth quarter of 1967, the preferred shareholders earned the equivalent of the regular annual dividend.

NOTE B—TELEPHONE PLANT

Telephone plant in service comprises land, buildings, poles, wire, cable, underground conduit, switchboards, telephones, office furniture, vehicles, and tools. Plant is stated at amounts authorized by The Public Utilities Commission of Ohio with respect to acquisitions from other companies, and other additions are included at cost as of dates of installation.

NOTE C—FUNDED DEBT

First Mortgage Bonds outstanding as of December 31, 1967, are as follows:

Nov. 1, 1980	2½ %	\$ 1,600,000
Nov. 1, 1982	3½	1,800,000
Oct. 1, 1987	5½	3,000,000
Dec. 1, 1988	4¾	3,000,000
Sept. 1, 1991	4¾	3,500,000
Oct. 1, 1993	4½	6,000,000
Sept. 1, 1997	6¼	4,250,000

TOTAL \$23,150,000

Statements of Other Capital and Retained Income

	YEAR ENDED DECEMBER 31	
	1967	1966
OTHER CAPITAL		
Balance at beginning of year	\$ 1,605,789	\$ 3,944,783
Common Stock distributions:		
Excess of market value of shares issued over the par value thereof for a 1% stock dividend	1,100,218	—o—
Transfer to Common Stock of the aggregate par value of 701,698 shares issued on the basis of one new share for each three existing shares ..	—o—	2,338,994*
Balance at end of year	<u>\$ 2,706,007</u>	<u>\$ 1,605,789</u>
RETAINED INCOME		
Balance at beginning of year	\$ 9,691,573	\$ 8,015,305
Add net income for the year	4,170,481	3,872,898
	<u>\$13,862,054</u>	<u>\$11,888,203</u>
Deduct:		
Cash dividends declared:		
5% Preferred Stock—\$3.75 a share—\$5.00 in 1966	\$ 170,056	\$ 225,353
4½% Preferred Stock—\$3.375 a share— \$4.50 in 1966	67,505	90,007
4¼% Preferred Stock—\$3.19 a share \$4.25 in 1966	38,280	51,000
Common Stock—\$.70 a share—\$.65 a share in 1966	1,983,980	1,824,683
	<u>\$ 2,259,821</u>	<u>\$ 2,191,043</u>
Excess of redemption price (including dividends of \$92,016 to January 1, 1968) of Preferred Stock over par value thereof—Note A	539,201	—o—
Common Stock distributions:		
Market value of common shares issued to effect a 1% stock dividend	\$ 1,190,278	\$ —o—
Cash paid in lieu of fractional shares	46,450	5,587
	<u>\$ 1,236,728</u>	<u>\$ 5,587</u>
	<u>\$ 4,035,750</u>	<u>\$ 2,196,630</u>
Balance at end of year	<u>\$ 9,826,304</u>	<u>\$ 9,691,573</u>

* Indicates red figure. See notes to financial statements.

NOTE C—FUNDED DEBT—CONTINUED

The bonds are secured by first mortgage on all telephone plant now owned or hereafter acquired. The Company covenants, while any of such bonds are outstanding, to provide sinking funds by annual payments to the Trustee, in cash or securities, of an amount equal to one percent of the aggregate principal amount of bonds issued. The Company has the right to substitute 60% of cost or fair value of permanent additions against which additional bonds have not been issued in lieu of cash or securities to meet sinking fund requirements. Sinking fund requirements have been complied with.

Under the terms of the Thirteenth Supplemental Indenture dated September 1, 1967, to The First Mortgage Trust Deed, retained income amounting to approximately \$4,824,000 is not restricted for payment of cash dividends on common stock.

NOTE D—INVESTMENT TAX CREDIT

The investment credit available for federal income taxes is being taken into income over the estimated average service life of the applicable telephone plant.

NOTE E—RETIREMENT PLAN

Employees of the Company are covered by a non-contributory retirement plan in the form of a group annuity contract with an insurance company. The contribution to the plan for the year, charged to other operating expenses, was \$170,724 which includes amortization of prior service liability over a 20 year period. At December 31, 1967, the estimated unfunded prior service liability amounted to approximately \$332,000. The assets of the deposit administration fund exceed the actuarially computed value of vested benefits. The policy of the Company is to fund pension costs as accrued.

Ten Year Comparison

	1967	1966	1965
Operating Revenues	\$20,130,046	\$18,407,950	\$16,584,843
Operating Expenses	11,355,935	10,247,140	9,267,090
Operating Income before Federal Income Taxes	8,774,111	8,160,810	7,317,753
Other Income	84,202	114,854	163,180
Fixed Charges—Interest and Other	1,015,763	863,042	913,942
Income before Federal Income Taxes	7,842,550	7,412,622	6,566,991
Provision for Federal Income Taxes	3,672,069	3,539,724	3,254,447
Net Income for the Year	4,170,481	3,872,898	3,312,544
Preferred Stock Dividends	\$ 367,857	\$ 366,360	\$ 363,440
Net Income Available for Common Stock	3,802,624	3,506,538	2,949,104
Common Stock Dividends	3,220,708	1,830,270	2,230,129
Retained Earnings	134,731 (a)	1,676,268	718,975
Net Income per Common Share	\$1.34 (b)	\$1.25	\$1.40
Dividends per Common Share	.647 + 1% Stk (b)	.635	.581 + 1% S
Per Cent Earned on Book Value of Plant	6.03%	6.11%	5.75%
Times Preferred Dividend Requirements Earned	11.3	10.6	9.1
Cash Dividend Requirements Earned	2.1	2.0	1.9
Total Telephone Plant	\$69,119,571	\$63,438,104	\$57,582,752
Reserve for Depreciation	14,925,457	13,477,757	11,711,393
Net Telephone Plant	54,194,114	49,960,347	45,871,359
Capitalization:			
Funded Debt—First Mortgage Bonds	\$23,150,000	\$18,900,000	\$18,900,000
Preferred Stock	—o— (c)	7,720,800	7,661,400
Common Stock and Surplus	21,979,834	20,659,040	18,983,590
Total Capitalization	45,129,834	47,279,840	45,544,990
Number of Common Shares Outstanding at Year-End	2,834,257	2,807,239	2,105,541
Number of Telephones at Year-End	165,232	157,908	149,350
Number of Common Stockholders at Year-End	2,514	2,362	2,206
Number of Employees at Year-End	1,086	1,013	913

a) Reflects reduction of \$447,185 for excess of redemption of Preferred Stock over Par Value.

b) Reflects one per cent stock dividend in 1967.

c) Called for redemption on December 1, 1967.

1964	1963	1962	1961	1960	1959	1958
016,876	\$14,304,862	\$13,270,945	\$12,148,446	\$11,441,595	\$10,533,194	\$ 9,508,391
676,565	8,319,649	7,735,820	7,002,540	6,471,615	6,566,429	5,598,943
340,311	5,985,213	5,535,125	5,145,906	4,969,980	3,966,765	3,909,448
265,571	63,148	39,515	43,239	13,517	28,029	2,666
950,925	728,952	676,091	592,205	510,355	502,396	410,280
654,957	5,319,409	4,898,549	4,596,940	4,473,142	3,492,398	3,501,834
833,615	2,754,947	2,527,810	2,392,459	2,259,010	1,790,615	1,777,041
821,342	2,564,462	2,370,739	2,204,481	2,214,132	1,701,783	1,724,793
361,805	\$ 360,011	\$ 358,029	\$ 345,416	\$ 335,050	\$ 308,389	\$ 275,309
459,537	2,204,451	2,012,710	1,859,065	1,879,082	1,393,394	1,449,484
043,504	1,794,461	1,459,567	1,110,634	1,053,472	948,125	758,781
416,033	409,990	553,143	748,431	825,610	445,269	690,703
54	\$3.17	\$2.89	\$2.67	\$3.57	\$2.65	\$2.75
0+2% Stk	1.57+2% Stk	1.54+1% Stk	1.52+25% Stk	2.00	1.80	1.60+25% Stk
4%	5.09%	5.04%	4.96%	5.54%	4.71%	5.23%
	7.1	6.6	6.4	6.6	5.5	6.3
	2.0	1.9	1.8	1.8	1.5	1.9
793,858	\$50,396,954	\$46,987,901	\$44,455,718	\$40,001,250	\$36,156,267	\$32,976,403
179,851	8,681,558	7,486,939	6,626,752	5,341,551	4,443,006	3,534,564
614,007	41,715,396	39,500,962	37,828,966	34,659,699	31,713,261	29,441,839
652,000	\$21,652,000	\$15,652,000	\$15,652,000	\$12,152,000	\$12,152,000	\$ 9,152,000
622,900	7,596,000	7,560,800	7,514,500	7,113,200	7,024,700	6,389,100
699,853	16,452,017	15,391,122	14,503,042	13,390,371	12,564,454	12,119,069
974,753	45,700,017	38,603,922	37,669,542	32,655,371	31,741,154	27,660,169
695,817	683,063	670,531	664,803	526,736	526,736	526,736
140,324	135,440	129,852	125,214	118,651	113,616	108,547
2,086	2,054	2,048	2,017	1,923	1,912	1,832
893	879	903	883	838	830	819



Northern Ohio Telephone Company

Exchanges

		TELEPHONES JANUARY 1, 1968
EXCHANGE		
S	Ashland	12,275
S	Ashley	759
S	Attica	1,000
S	Bellevue	5,887
S	Berlin Heights	666
S-P	Bowling Green	10,026
S	Brunswick	5,092
S	Burbank	336
	Carey	2,037
S	Cheshire Center	722
S	Chippewa Lake	625
S	Clyde	3,777
S	Congress	383
S	Creston	849
S-P	Crestline	3,239
S	Curtice-Oregon	3,146
S	Delaware	9,491
S	Elmore	1,624
S-P	Galion	9,294
S	Genoa	1,972
S	Grafton	1,082
S-P	Grand Rapids	846
S	Greenwich	1,039
S-P	Haskins-Tontogany	692
S	Hayesville	1,345
S	Homerville	176
S	Huron	3,624
	Kelleys Island	158
S	Kilbourne	394
S	Lakeville	206
S	Leroy	565
S	Lodi	1,736
S	Loudonville	2,058
S	Marblehead	1,316
	McComb	1,012
S	Medina	9,086
S	Milan	1,405

		TELEPHONES JANUARY 1, 1968
EXCHANGE		
S	Monroeville	1,145
S	Montrose	6,016
S	New London	2,102
	New Washington	821
S-P	North Baltimore	1,436
S	North Eaton	1,545
S	Norwalk	8,786
S	Oak Harbor	2,781
S	Oberlin	5,657
S	Ostrander	436
S-P	Pemberville	953
S	Perrysville	855
S	Plymouth	1,069
S	Polk	380
S	Port Clinton	7,149
	Put-In-Bay	358
S	Radnor	261
S	Rathbone	611
S	Red Haw	382
S	Savannah	471
S	Seville	889
S	Sharon Center	1,280
S	Valley City	760
	Van Buren	345
S	Wadsworth	8,274
S	Wakeman	655
S-P	Wayne-Bradner	1,195
S	Wellington	2,936
S-P	Weston	936
S	West Salem	565
S	Willard	4,243

Total 165,232

Exchanges With Direct Distance
Dialing

S—Station-To-Station

P—Person-To-Person

Area Served

